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SUBJECT: AUSTRIA'S ECONOMIC RELATIONS WITH IRAN

REFS: A) VIENNA 518 B) VIENNA 142 C) 07 VIENNA 2815 D) 07 VIENNA
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Summary

1. (SBU) Austrian exports to Iran declined by 7.2% in 2007, following a drop of 21.7% in 2006. However, Iranian exports to Austria - 80% of which was energy -- Austria jumped 57.1% in 2007. Overall trade remained a very small part (.24%) of Austria's total trade, although Iran is still an important export market for a small core of Austrian businesses. The Austrian Economic Chamber continues to promote commerce with Iran, but Minister of Economics Martin Bartenstein noted that Iran's nuclear program "cast a cloud" over its commercial relations with Austria. Austria's export guarantee entity, the Kontrollbank, has reduced its risk exposure vis-à-vis Iran by Euro 100 million in 2006 and Euro 70 million in 2007. A Kontrollbank contact confirmed that the bank is "step by step reducing its cover" for business in Iran. The Kontrollbank will reportedly only guarantee projects with a value up to Euro 3-4 million, consisting primarily of consumer goods. Official statistics list only one major Austrian FDI project in Iran, which the GoA refuses to identify because it is the only one. Austria's energy company OMV maintains energy interests in Iran, but all indications are that OMV has slowed its cooperation with Iran, pending a resolution of the nuclear dossier. End Summary.

Austrian Chamber Promoting Business in Iran

2. (U) Approximately 650 Austrian firms export to Iran, of which 30 are present in Iran with sales offices or local joint venture partners. Austria and Iran hold regular high-level bilateral economic meetings (mixed commissions), which aim to promote trade and investment. The Austrian Economic Chamber (WKO) actively seeks out opportunities for Austrian businesses in Iran. In autumn 2007, the WKO organized group exhibitions for Austrian firms at two fairs in Iran in the industrial and energy sectors. For 2008, the WKO plans group exhibitions at the Iran Oil and Gas Show in May, the Iran Food, Hospitality and Beverage Show in May, and Iranplast in November.

3. (U) Despite these promotion activities, the WKO views the current economic situation in Iran as not particularly promising for trade and investment due to the Iranian regime's poor economic policies and the effects of the UN sanctions. Nevertheless, WKO President Christoph Leitl has consistently publicly argued that increased commercial relations with Iran could serve as a confidence-building measure in politically difficult times. However, during the June 2007 visit (ref E) of Iranian Finance Minister Davoud Danesh Jafari, Economics Minister Martin Bartenstein noted that Iran's nuclear program "had cast clouds over Austrian-Iranian commercial relations."

Austrian Exports to Iran Decline Last Two Years

¶4. (U) Trade with Iran remained a very insignificant part of Austria's overall trade (0.24%), and Austrian exports to Iran were only 0.28% of Austria's total exports in 2007. In the Middle East, Iran was Austria's third largest (down from second largest in 2006) trading partner. In 2007, Austrian exports to Iran were Euro 315 million (\$472 million), down 7.2% from 2006 and down 21.7% from ¶2005. Austrian exports to Iran are primarily machinery and vehicles (55% of total), followed by chemical products and manufactured products.

¶5. (U) Imports from Iran continue to fluctuate erratically. In 2005, imports from Iran tripled to Euro 189.5 million, fell 25.5% in 2006 to Euro 141.1 million, then rose by 57.1% to Euro 221.6 million in 2007. Iranian imports are overwhelmingly energy (80% of total), followed by raw materials and some manufactured products. In 2006 (latest figures available), Iran was the seventh largest supplier of oil to Austria (4.3% of total oil imports). Iran ranked behind Kazakhstan (20%), Russia (16%), Nigeria (15%), Libya (15%), Saudi Arabia (11%), and Syria (8%).

Export Guarantees to Iran Declining

¶6. (SBU) The Austrian Kontrollbank, Austria's export and financing guarantee entity, continues to grant guarantees to Austrian exporters to and investors in Iran. However, a Kontrollbank contact recently told post that the bank is "step by step reducing its cover" for business in Iran. Total cover for exports and investments to Iran is now Euro 700 million (\$1.0 billion), down Euro 90 million in 2007 and Euro 100 million in 2006. Cover is available only for projects with a value up to Euro 3-4 million.

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Our contact said that there is still a variety of goods for which applications for cover are issued, but consumer goods represent the vast majority.

¶7. (SBU) According to our contact, the Kontrollbank scrutinizes each application much more closely since UN sanctions were implemented. In addition, the Kontrollbank continues to submit all requests for letters of credit to finance exports to the Ministry of Economics to ensure that no exports to sanctioned firms, or of controlled items, inadvertently receive financing (ref D).

Foreign Direct Investment

¶8. (SBU) In 2004, the GoA and Iranian Government signed new investment and double taxation agreements. Austrian businesses have invested in Iran's paper, cement, and packaging industries, and participate in rail and other infrastructure construction projects. However, Austrian National Bank (ANB) statistics list only one Austrian FDI project in Iran and, vice versa, only one Iranian FDI project in Austria. The values of both projects are reportedly small (Note: The threshold for inclusion in ANB statistics is a shareholding of at least 10% and a minimum nominal equity investment of Euro 72,000). Since there is only one investment in either direction, the ANB cannot disclose details on these investments for data protection reasons.

¶9. (U) The brewery and soft drink manufacturer Ottakringer is building a Euro 25 million brewery near Tehran with an Iranian partner, the family enterprise "Kilos Food Industries." The brewery will be finished in 2010 and produce up to 600,000 hectoliters per year of Ottakringer's alcohol-free beer. In the meantime, Ottakringer plans to enter the Iranian market with exports.

OMV's Iranian Interests

¶10. (SBU) Austria's energy company OMV has been exploring an oil field in the Zagros region since 2001. The block was declared "commercially viable" in 2005 and a development plan is being worked on, according to OMV publications. In April 2007, OMV signed a Heads of Agreement to participate in the development of Iran's South Pars gas field. Both sides had initially hoped to finalize the agreement by the end of 2007, but OMV contacts have told us that there has been no significant progress towards finalizing the agreement (refs A and C). OMV and the GoA, which controls 31.5% of OMV, appear reluctant to move forward with the South Pars project in the present political situation in Iran. OMV, as the lead company in the Nabucco pipeline consortium, would like to access Iranian gas for the project, pending a resolution of the nuclear dossier (ref B).

KILNER